

Autumn Statement



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We're all paying for Brexit now

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Last month Philip Hammond told the Tory party conference: "It is clear to me that the British people did not vote on June 23 to become poorer." It turns out they did. The Office for Budget Responsibility was unequivocal in its updated forecasts for the autumn statement. Brexit has cost Britain on every measure worth looking at.

Real wages will shrink in the second half of next year as pay is overtaken by advancing inflation, caused by the collapse in sterling. Unemployment will rise by 100,000. Borrowing will soar by £58.7 billion over the next five years as a direct result of the referendum. The national debt will climb from £1.64 trillion today to almost £2 trillion in 2020. By then the

economy will be 2.4 percentage points smaller than it would otherwise have been, or £45 billion in today's money. Long-term prosperity has even been damaged. The trend rate of productivity growth, the ability to do more with less, has been downgraded to 1.8 per cent from 2 per cent in March.

Forecasts are just forecasts, except when it comes to the OBR. The outlook from the government's fiscal watchdog is real because it requires policy responses. Fixing the problem, making Brexit work as the government has promised, will be expensive. So, to spare voters the pain they do not want, the chancellor launched the biggest deficit-funded stimulus programme since Alistair Darling's.

To buy the headroom for a £33.1 billion spending "splurge" over the next five years that he had claimed was not on the cards, Mr

Hammond junked George Osborne's fiscal prudence and turned Keynesian. Lifting his script straight from the economist's textbook, he pledged £23.7 billion on infrastructure. John Keynes once jokingly advocated digging holes to boost growth. For the chancellor, the modern equivalent is broadband, R&D and innovation.

Having looked at the numbers, the chancellor concluded that Britain was facing a productivity emergency. "It takes a German worker four days to produce what we make in five; which means that too many British workers work longer hours for lower pay than their counterparts," he said. The OBR's productivity downgrade suggests Britain won't be catching up soon.

Weak productivity seeped into every corner of the forecast. Slower growth was down to the economy's lacklustre potential, which in turn hit real earnings as it meant inflation struck earlier.

The OBR blamed soft productivity directly for £18 billion of the £58.7 billion Brexit-related borrowing shortfall, as tax receipts suffer from lower wages and fewer jobs.

Mr Hammond's response was to put productivity at the heart of all his plans, from investment to devolution. Whereas Keynes believed spending could be a virtue in itself, Mr Hammond promised a bang for every pound, directing money at what he branded the National Productivity Investment Fund, a definition that encompassed everything from housing to roads to "long-term investment".

Welfare and public spending do not count, he said as he outlined his new belt-loosening golden rules for the public finances. Mr Hammond not only scrapped his predecessor's plan to balance the books in 2019, but gave

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